

HUNGARY

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Capital: Budapest

GDP per capita (PPP): \$11,200 (2000 est.)

Population: 10,106,017 (July 2001 est.)

Foreign Direct Investment: \$1,650,000,000

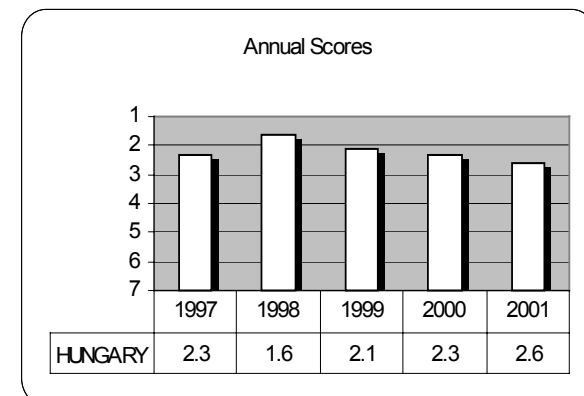
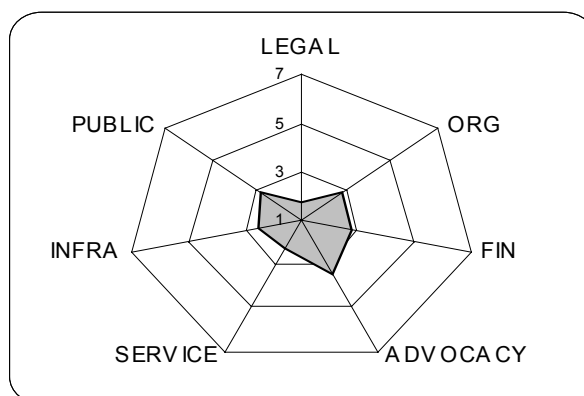
Inflation: 10%

Unemployment: 9.4% (2000 est.)

OVERALL DESCRIPTION: 2.6

According to the records of the Central Statistical Office, there were 62,000 registered nonprofit organizations (NGOs) in Hungary in 1999. Of these, between 20-30,000 NGOs can be considered to be active.

A major concern of is that the NGO sector is becoming increasingly politicized. The political elite, including Hungary's governing and opposition parties, is increasingly trying to gain support and legitimacy from the "civil sector", potentially creating a problem of dependency and party bias. Many NGOs have shown their willingness to affiliate themselves with these initiatives, which has resulted in an increase in the influence of the state and political parties on the development of the sector. However, at the same time, the advocacy activities of NGOs are not yet strong enough to have substantial impact on local and national decision-making processes.



The development of local resources, including indigenous grant-making and private individual and corporate giving, is a major long-term challenge for the sector. NGOs must learn to mobilize local resources through the development of professional fundraising and public relations. Meeting this challenge will require that NGOs increase cooperation both within the sector, and across sectors with government and business.

Other challenges that remain for the sector include the development of more effective governance practices and enhanced financial management skills that ensure transparency and accountability.

LEGAL ENVIRONMENT: 1.7

The legal environment in which nonprofit organizations operate in Hungary is generally positive. There are, however, growing concerns about a number of existing regulations that were considered progressive eight, six, or even three years ago, but have become obsolete or difficult to comply with as the sector has matured.

According to an assessment by the Environmental Management Law Association (EMLA), the non-profit law currently in place is sufficient to maintain the status quo, but does not accommodate the further growth and development of the sector. Rather than focusing on substantive issues such as the powers or competencies of organizations, the current law overemphasizes procedures. These highly formalized and bureaucratic processes place an undue burden on less sophisticated, usually local level groups.

Some of the basic regulations remaining in the current legal framework are hindering the transparency and effectiveness of Hungarian NGOs. These are primarily laws that date back ten years, and are related to the founding, representation and termination of foundations and associations. The existing body of tax regulations that govern private giving are also far from encouraging.

In general, the courts have become much stricter in their application of law, as it applies to the granting of registrations to non-profit organizations. At the same time, however, there does not appear to be a set of common guiding principles behind these court decisions.

Clarifying and improving basic regulations, the equality of treatment for non-profit organizations, and improvements in education and training for courts applying NGO law, would be beneficial next steps in making the legal framework truly enabling.

ORGANIZATIONAL CAPACITY: 2.8

In disadvantaged regions NGO skills in strategic planning, management, human resource development, and communications are largely lacking. Many organizations are prone to becoming entirely funding driven.

A small number of well-established organizations have substantial resources and a steady flow of income from either state or EU support. Many of these organizations adopt the strategies of their major funding organization, and are able to apply businesslike management methods in implementing their activities. Regional development agencies and

national youth support networks are typical examples.

Finally, there is a small, but increasing number of capable, professional and accountable NGOs that are starting to develop a diversified and sustainable resource base, and share their "best practice" examples in financial planning and program quality assurance.

The greatest challenge remaining for the sector is the lack of effective governance. Boards of Directors and governing bodies are in the very initial stages of development. There is an almost abso

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lute lack of knowledge and capacity in advanced financial management. Substantial improvement in the accountability, transparency and professional fundraising capacity of Hungarian NGOs will be required to gain the trust of private donors and decrease dependency on state and foreign sources.

Additional challenges are presented by the limited long-term career opportunities available in the nonprofit sector. Often, NGOs are resistant to the idea of employing an “outsider” as a professional manager. Nevertheless, a private college in Budapest launched the first year of a new college-level nonprofit management program during 2001.

FINANCIAL VIABILITY: 2.8

Hungary has been enjoying dynamic and steady economic growth, and is among the first in line for EU accession. Conditions should therefore be favorable for the growth of private financial support and the development of indigenous philanthropy. The sector itself is, however, far from realizing its potential. Although there are a number of outstanding examples of private contributions from individuals and corporations, these remain isolated success-stories. It is essential for the long-term sustainability of the nonprofit sector that it develop a widespread culture of regular giving.

Funding levels vary greatly within the sector. Organizations with larger budgets tend to be dependent upon a limited number of major state sources of financial support. Available resources continue to be controlled primarily by NGOs located in the capital city. Although they comprise only one-third of the NGOs in Hungary, Budapest-based NGOs receive almost two-thirds of the sector's

contributed financial support. Financial viability is therefore intrinsically related to regional economics.

Over the past decade, close to 60% of all the sector's income has been self-generated revenue. Although this is an encouraging sign, there is some disagreement over the validity of this figure, because it includes a high proportion of income from state subsidized services, which many consider to be state support. At the same time, the gradual growth in giving under the One Percent Program continues, with 1.3 million people giving \$15.3 million (U.S.) to 18,500 nonprofit organizations during the past year. This program allows citizens to donate 1% of their income taxes paid to a registered NGO.

An informal group of Hungarian support organizations has begun to discuss possible national strategies for ensuring the long-term sustainability of the sector.

ADVOCACY: 3.5

In many areas, NGOs are proving to be effective at making their positions known to decision-makers and in working for change. NGOs advocating for the rights of the disabled are an outstanding example of successful advocacy capacity.

These efforts can be very effective, particularly at the local level. In general, NGOs advocacy efforts are directed primarily toward the government, rather

than the education, development and mobilization of their constituencies.

Relatively powerful federations exist in some sub-sectors (e.g. youth and pensioners), but they are largely based on

the centralized model of the old socialist interest-representation structures (top-down rather than bottom-up) and are therefore often obsolete and largely ineffective in identifying and representing their constituents' needs and interests.

SERVICE PROVISION: 2.3

The legal environment for NGOs in Hungary supports a wide range of opportunities for the provision of nonprofit services. The 1997 "Nonprofit Law" specifies "public benefit" status for those organizations undertaking contractual services, and both local and central governments provide per capita financial support for most social sector services.

Local governments, however, are still wary of giving funding to NGOs to supply those social services that municipalities are legally mandated to provide. This is not likely to change in the near future. A complicating factor is that contracts signed by municipal governments and NGOs are often abrogated following

a change in party control in later elections.

Approximately 25% of NGOs provide some sort of services, even if they struggle with the constraints of limited resources and low levels professional management capacity. A number of unique, alternative and tailored services are provided by NGOs (e.g. therapeutic horse riding for disabled children and home care for the elderly). In addition, NGOs have launched assessments of the quality of the services they provide and of the ethical standards and user involvement in the design and implementation of services.

INFRASTRUCTURE: 2.5

The Hungarian nonprofit sector has reached a point of maturity where a pool of professionals and institutions exists that are capable of providing consultative services to the sector. This expertise is generally available both regionally and nationally, though the quality of service can vary across regions. It is rare, however, that smaller NGOs are able to afford to pay for these services.

The GOH (Government of Hungary) funds a nationwide network of "Civic Houses" in larger towns that provide

services to local NGOs. This initiative has produced ambiguous results. The quality of services often depends upon the individual people involved. Both the network of Civic Houses and a nationwide network of "Telecottages" have a high level of physical/technical infrastructure. Unfortunately, they are often underutilized. To some degree, the existing level of infrastructure is supply driven and is not likely to be sustainable without continued foreign donor or government funding.

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PUBLIC IMAGE: 2.8

The impact of Hungary's "One Percent" legislation and the 1997 NGO Law are beginning to be felt. NGOs have begun to undertake concentrated efforts to inform the public and local communities about their activities. The "One Percent" law has proven to be popular with the public at large, despite a major scandal revealed last year about the misuse of funds.

However, the majority of citizens remain relatively ignorant about NGOs and their role in a civil and democratic society, and the sector lacks a common and unifying identity that can serve as a foundation for increased public awareness. Organizations raising funds from individuals, such as the United Way/Hungary, have even experienced growing distrust among potential donors towards foundations and associations.